SYSTEMIC BANKING LENDING PRACTICES ON HAZARD-NOTED PROPERTIES

Regulatory Deflection, Complaint Barriers, and Interconnected Governance Failures

Consolidated Briefing – July 2026

Executive Summary

This document consolidates evidence of a systemic conduct issue in New Zealand banking: the application of blunt, area-based lending restrictions to properties carrying council hazard notations from flood and coastal adaptation planning. The practice is occurring without adequate individual assessment and is compounding harm already being created by managed retreat signalling and infrastructure underfunding.

Multiple regulatory channels have been engaged. Responses demonstrate clear deflection patterns and structural barriers that make meaningful accountability extremely difficult for ordinary citizens. Only sustained, highly organised persistence has allowed this issue to be formally recorded.

The problem sits at the intersection of banking conduct, local government hazard mapping, co-governance structures, managed retreat policy, and chronic infrastructure underfunding. These elements are reinforcing each other, accelerating risk transfer onto homeowners while accountability mechanisms remain fragmented and ineffective.

1. The Core Issue: Blunt Lending on Hazard-Noted Properties

1.1 Nature of the Practice

Registered banks are applying broad, postcode or area-level lending restrictions (declines, heavy conditions, or LVR restrictions) to properties that appear on council hazard maps or LIMs with flood, ponding, or coastal hazard notations. This is frequently done without site-specific engineering assessment, roof condition review, or consideration of actual risk mitigation measures already in place.

The effect is that properties in designated areas are treated as high-risk by default, even when individual circumstances suggest otherwise. This is a blunt instrument being applied at scale.

1.2 Why This Is Particularly Problematic in New Zealand

New Zealand has the highest proportion of older housing stock in the OECD. Many pre-1940s and mid-century homes are structurally sound but now carry hazard notations due to updated council mapping. These notations are triggering lending restrictions that effectively devalue generational assets without corresponding improvements in actual risk management or infrastructure investment.

The combination of blunt banking criteria + non-transparent council hazard mapping + weak regulatory oversight is creating a compounding effect that normal market correction mechanisms cannot address.

2. Regulatory Engagement and Documented Responses

2.1 Reserve Bank of New Zealand (RBNZ)

An Official Information Act request was submitted seeking guidance issued to banks regarding lending on older housing stock and properties with hazard notations, plus any analysis of market impacts. The RBNZ response confirmed:

- No specific guidance has been issued to registered banks on this issue.
- The RBNZ holds no analysis or modelling on the impact of its climate-related financial risk frameworks on lending to older housing stock or hazard-noted properties.
- No data is collected on the number or proportion of loan applications declined or conditioned due to hazard notations.

This represents a significant regulatory blind spot at the intersection of climate risk frameworks and consumer lending practices.

2.2 Banking Ombudsman Scheme

A formal complaint was lodged requesting examination of the systemic pattern. The response stated that the Banking Ombudsman Scheme only considers complaints from individual customers about specific banking services received. It does not undertake broader reviews of industry practices or public policy issues. The correspondence was recorded but no further action was taken on the systemic question.

2.3 Financial Markets Authority (FMA)

A formal complaint was submitted on 18 July 2026 under reference REF261283781. The complaint frames the issue as a conduct and fair treatment concern across multiple registered banks. At the time of writing, the complaint is under initial processing. This represents the first formal regulatory lodgement specifically targeting the systemic lending pattern.

3. Structural Barriers to Accountability

The experience of attempting to raise this issue reveals a fragmented and defensive regulatory architecture:

1. **Individual vs Systemic Gap:** Dispute resolution schemes are explicitly limited to individual cases. Systemic patterns fall between the cracks.
2. **Circular Referral:** Forms require contact with the 'entity' (banks) first, yet the issue is industry-wide and the complainant is not a customer of every affected bank.
3. **Information Asymmetry:** Regulators hold limited data on the actual scale of the problem because banks are not required to report it.
4. **Persistence Threshold:** Only individuals with high capacity for sustained research, documentation, and multi-channel engagement can force the issue onto the record. This creates a de facto barrier that protects the status quo.

4. Interconnections with Broader Governance Failures

The banking lending issue does not exist in isolation. It is reinforced by and reinforces several other structural problems:

4.1 Managed Retreat and Hazard Mapping

Council hazard mapping and adaptation planning (including managed retreat pathways) are generating the notations that banks are then using as blunt lending criteria. The lack of transparency in how these maps are produced and communicated is directly feeding lending decisions that devalue properties.

4.2 Co-Governance Structures

Co-governance arrangements and iwi participation agreements often operate with reduced public scrutiny compared to standard council processes. Where these structures influence hazard planning or adaptation priorities, the accountability chain becomes even more opaque. Private trust structures involved in co-governance are not subject to the same transparency obligations as public bodies.

4.3 Amalgamation and Local Government Reform

Current proposals for local government simplification and amalgamation risk further diluting local accountability at precisely the moment when infrastructure decisions and hazard planning need stronger democratic oversight. Larger entities can more easily absorb or deflect responsibility for past decisions.

4.4 Infrastructure Underfunding and Short-Termism

Chronic underinvestment in stormwater, flood protection, and coastal infrastructure is the root physical cause of increasing hazard exposure. When this underfunding is combined with managed retreat messaging and blunt banking responses, the result is a de facto policy of risk transfer onto individual property owners without corresponding investment in protection or transparent decision-making.

5. Predicted Consequences if Unaddressed

If current trajectories continue without correction, the following outcomes are highly probable within the next 3–7 years:

- Accelerated insurance retreat from high-hazard and older-housing postcodes, further reducing lending appetite.
- Significant further devaluation of properties in designated areas, particularly pre-1970s stock.
- Increased mortgage stress and forced sales as lending conditions tighten or renewals are refused.
- Ratepayer and Crown liability exposure as property values fall and councils face legal and political pressure over mapping accuracy and process fairness.
- Erosion of public trust in both local government and financial regulators as the human and financial costs become visible.

Conclusion and Record

This document records a sustained attempt to raise a systemic issue that sits across multiple regulatory and governance domains. The responses received demonstrate both the existence of the problem and the structural difficulty of obtaining meaningful scrutiny.

The FMA complaint lodged on 18 July 2026 (REF261283781) now forms part of the official record. Regardless of the eventual outcome of that complaint, the pattern of blunt lending practices, regulatory deflection, and interconnected governance failures has been documented and can be referenced in future accountability processes.

New Zealand cannot afford for these issues to remain in the 'too hard' basket. The combination of an ageing housing stock, increasing hazard exposure, and weak accountability mechanisms is creating predictable and avoidable harm to homeowners and communities.

This briefing is provided as independent research for the recipient's consideration. Full supporting documentation, including RBNZ and Banking Ombudsman correspondence, is available upon request.

Reference: FMA Complaint REF261283781 (18 July 2026)